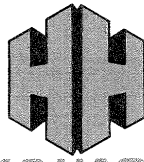


Management Letter

THOMAS A. EDISON CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Wilmington, Delaware

Year Ended June 30, 2006



HAGGERTY & HAGGERTY, P.A.

**CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS**

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Management Letter

Members of the School Board
Thomas A. Edison Charter School
Wilmington, Delaware

In planning and performing our audit of the basic financial statements of Thomas A. Edison Charter School for the year ended June 30, 2006, we considered the internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

During our audit of the basic financial statements we became aware of certain matters that are opportunities for strengthening the internal control and operating efficiency. The memorandum that accompanies this letter summarizes our findings and recommendations. A separate report dated January 26, 2007 contains our report on reportable conditions in the School's internal control. This letter does not affect our report on the School's financial statements, dated January 26, 2007.

The matters noted are only those that came to our attention and, had our procedures for internal control related matters been more extensive, other matters might have been noted. Also, the functioning of the internal control was assessed at a point in time, and no assurances can be drawn that the internal control is functioning or will continue to function beyond the point in time at which it was assessed. No opinion is being expressed regarding the internal control taken as a whole.

We will review the status of these findings during our next audit engagement. We have discussed these matters with School personnel and we would be pleased to discuss them in further detail at your convenience, to perform any additional study, or to assist the School in implementing the recommendations.

This report is intended solely for the information and use of the School's management, School Board members, the Department of Education, the Office of the Governor, the Office of Controller General, the Office of Attorney General, the Office of Management and Budget, Office of Auditor of Accounts, Secretary of Finance, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a matter of public record and its distribution is not limited.


Certified Public Accountants

January 26, 2007
Wilmington, Delaware

LIST OF FINDINGS FOLLOWS:

<u>Current Findings</u>	<u>Description</u>
1	Human Resource Function
2	Interest Charges by Vendors
3	Cash Disbursement Function
 <u>Status of Prior Years' Findings</u>	
June 30, 2005:	
1	Travel Reimbursement
2	Lawsuit Settlement
 June 30, 2004:	
1	Management Fees
2	Management Agreement
 June 30, 2002:	
3	Budget Adoption

CURRENT FINDINGS

Finding Number 1 - Human Resource Function

Our review of the human resource function revealed that certain personnel files did not contain complete Immigration and Naturalization Service (INS) Form I-9 and Employee Withholding Allowance Certificate (Form W-4), and certain other miscellany information. Out of a random sample of 40 files tested, one file had an incomplete Form I-9, one file had an incomplete Form W-4, two files had incomplete information documenting name changes, two files had incomplete contracts, and one file had an official transcript misfiled in another employee's file. The accuracy and completeness of personnel information is crucial because of the following:

- The Immigration Reform and Control Act of 1986 requires that all employers verify "employment eligibility" of any individual hired after November 6, 1986 by completing and retaining INS Form I-9.
- The Internal Revenue Code requires that all employers obtain certain payroll information on Form W-4 under Code Sections 3402(f)(2)(A) and 6109.
- Laws regarding contractual agreements.
- Laws regarding an employee's right to privacy.

Recommendation

We recommend that the School establish monitoring procedures to ensure that all personnel files contain the necessary documentation required for compliance with federal, state and local laws. We also recommend that all personnel information be maintained in a safe and secure place.

Management Response and Corrective Action

"The School has already established monitoring procedures to ensure that all personnel files contain the necessary documentation required for compliance with federal, state and local laws. All personnel information is now maintained in a safe and secure place."

CURRENT FINDINGS (continued)

Finding Number 2 - Interest Charges by Vendors

Our review of vendor files revealed that a maintenance contract was not in agreement with the State of Delaware's Budget and Accounting System, which states in 29 Del. C. 6516 (3) that "The interest rate shall not exceed annualized rate of 12 percent."

In section 5(c) Compensation the contract states that "If any amount due under this Agreement is not paid in full with forty-five (45) days after its invoice date, then the unpaid portion will bear interest, from the invoice date until paid, at a rate of One Hundred Twenty-Five Percent (125%) of the Prime Interest Rate per annum (or, if prohibited by law, then the maximum rate permitted legally) on the unpaid balance, computed from the due date until the date paid."

In section 5(e) Compensation the contract states that "Upon expiration or termination of this agreement by either party for any reason whatsoever.....In the event such amounts owing are not paid within 30 days of expiration or termination, the School agrees to pay interest on such amounts at the Prime Rate plus two percentage points per annum, compounded monthly from the date of expiration or termination, until the date paid."

Recommendation

We recommend that the School when negotiating an agreement with a vendor be conscious of its responsibilities under the Delaware Code.

Management Response and Corrective Action

"The School when negotiating a contract with a vendor will be conscious of its responsibilities under the Delaware Code."

CURRENT FINDINGS (continued)

Finding Number 3 - Cash Disbursement Function

Our review of the cash disbursement function, which included a sample of 152 transactions, revealed the following:

- One employee reimbursement form was used by an employee of the management company to submit reimbursement of expenses to the School. The rate on the reimbursement form was changed to reflect the management company rate and not the rate stipulated by the State.
- Two vendors overcharged the School.
- Ten payment vouchers were miscoded.
- Thirteen payments were more than thirty (30) days after the invoice date.
- Thirty-one documents were dated before the authorization date, because the date when the information was entered into DFMS was not recorded it gave the appearance of being entered prior to the authorization date.
- Undocumented expenses invoiced by the management company.

The State of Delaware *Budget and Accounting Manual* Chapter VII 10(a) states, "The State shall make every effort to issue payments to vendors within 30 days of the presentation of a valid invoice on which a state agency is liable to make payment; or receipt of goods or services; if received after the invoice or bill".

Recommendation

We recommend that all vendor invoices be reviewed for accuracy and completeness, and be dated when entered into DFMS. We also recommend that the School comply with the State of Delaware *Budget and Accounting Manual* and make every effort to issue payments within thirty (30) days of the presentation of the invoice.

Management Response and Corrective Action

"All vendor invoices are reviewed for accuracy and completeness, and are dated when entered into DFMS. Every effort is made to issue payment within 30 days of invoice presentation."

STATUS OF PRIOR YEARS' FINDINGS

June 30, 2005:

Finding Number 1 - Travel Reimbursement

Our audit procedures revealed that the mileage reimbursement rate was not uniformly applied to all employees. As per Del. C. Title 29, Part VI, Chapter 71, §7102 *"The authorized mileage rate for employees of the State, its agencies and departments shall be 28 cents per mile effective July 1, 1999; 31 cents per mile effective July 1, 2000."*

Recommendation

We recommended the School review the mileage reimbursement payments to its employees to determine the action necessary to remedy the condition. Mileage reimbursements paid in excess of the State Code may be subject to penalty assessment as prescribed by State Code.

Status of Finding

The excess mileage reimbursements have been repaid. **The finding is resolved.**

STATUS OF PRIOR YEARS' FINDINGS (continued)

June 30, 2005: (continued)

Finding Number 2 - Lawsuit Settlement

A lawsuit against the School's subcontractor was filed on December 4, 2004 for nonpayment of an invoice for work performed at the School. The contract for the work was entered into on August 21, 2004. The subcontractor made no payments prior to the filing of the lawsuit. Because of the lawsuit, the School incurred additional costs of \$4,878, which consisted of attorney fees of \$2,500, court costs of \$323, and interest of \$2,055. We noted that the School had sufficient available funds from which to pay the vendor. Also, the interest rate assessed by the vendors was 1.5% per month which is in excess of the Del. C. Title 29, Part VI, Chapter 65, §6516, paragraph (d)(4) *"A vendor may require that interest under this subsection accrue on the unpaid balance at a rate not to exceed an annualized rate of 12 percent."*

Recommendation

We recommended that the School develop procedures to ensure the timely payment of vendor invoices. Also, School personnel should acquaint themselves with the State of Delaware Code Section 29 Subsection 6516. We also recommended that the School pursue collection of \$4,878 from its subcontractor.

Status of Finding

Our procedures noted no new occurrences. The School has decided not to pursue the recovery of the \$4,878 since the cost of the recovery would be greater than the \$4,878. **The finding is resolved.**

STATUS OF PRIOR YEARS' FINDINGS (continued)

June 30, 2004:

Finding Number 1 - Management Fees

Our review of the management agreement executed between the Charter School and the management company does not include the "limitation clause" as stated in Del. C. Title 14, Chapter 5, §512(14): *"The school's board of directors shall annually certify to the Department, on a form to be provided by the Department, that prior to the payment of any fees or other sums to any management company employed by the board, the board will insure that sufficient revenues of the Charter School are devoted to adequately support the Charter School's proposed educational program."*

Recommendation

We recommended that the management agreement be amended to include the "limitation clause" required by the State Code.

Status of Finding

The finding is resolved.

Finding Number 2 - Management Agreement

Our review of the management agreement executed between the Charter School and the management company states that it will assess an 11.50% management fee on gross revenues, which includes federal revenues. The wording in the agreement states: *"The Charter Board shall pay to Edison the amounts described in subsections (a) and (b) below:*

- (a) A 'Fixed Fee' equal to 11.5% of the gross revenues each year.*
- (b) A 'Variable Fee' equal to eighty percent (80%) of the amount the difference between revenues and expenditures exceeds the Fixed Fee amount for a particular school year."*

Federal awards can only be charged the maximum percentage allowable under each federal award. For guidelines regarding indirect cost allocations, refer to OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments", Attachment A, Section F.

Recommendation

We recommended that the management agreement be amended to exclude federal revenues from such a formula.

Status of Finding

The finding is resolved.

STATUS OF PRIOR YEARS' FINDINGS (continued)

June 30, 2002:

Finding Number 3 - Budget Adoption

Our review of the budget process indicates that the Charter School does adopt a budget; however, the budget is in a format that is not consistent with the DFMS chart of accounts. As a result, the Charter School's financial statements do not reflect the required "schedule of revenues, expenditures and changes in fund balances-budget and actual-general fund" required by Governmental Accounting Standards Board (GASB) Statement No. 34.

Recommendation

We recommended the Charter School adopt a budget in accordance with the DFMS chart of accounts. This is necessary with the adoption of the new reporting model required by GASB No. 34.

Status of Finding

The finding is resolved.